H. J. HEINZ COMPANY

UNITED STATES
UNITED KINGDOM
CANADA
AUSTRALIA
HOLLAND
BELGIUM
VENEZUELA
JAPAN
ITALY

Annual Report for Year Ended May 1, 1963

Highlights

of

Annual Meeting
of Stockholders

SEPTEMBER 18, 1963

Libby, McNeill & Libby

Highlights

of

Annual Meeting

The annual meeting of stockholders of Libby, McNeill & Libby was held September 18, 1963, at Portland, Maine.

Mr. Robert L. Gibson, Jr., President, presided.

Present in person or represented by proxy were the owners of 4,150,039 shares of common stock constituting 91.3% of the 4,540,800 shares outstanding on the record date and entitled to vote. More than 16,000 stockholders were represented in the voting.

The proposal to amend the charter and by-laws of the Company to increase the number of Directors from 9 to 11 was adopted by a vote of 4,073,880 shares representing 89.7% of the shares outstanding on the record date. The shares of stock voting against the proposal were 71,159 constituting 1.6% of the shares outstanding on the record date.

The proposal to amend Article III and Article VII of the by-laws, described in the proxy statement, was approved by an affirmative vote of 4,084,063 shares representing 89.9% of the shares outstanding on the record date. The number of shares voting against the proposal were 65,976 constituting 1.4% of the shares outstanding on the record date.

The following candidates named in the proxy statement were elected as Directors.

Charles W. Duncan	John H. Platt
John F. Fennelly	Daniel A. Porco
Robert L. Gibson, Jr.	Fred P. Slivon
Lyndle W. Hess	Walter F. Straub
Hughston M. McBain	Christian Cardin

Hans J. Wolflisberg

Our new color film, "14 Acres of Kitchen", was part of the program. This film, prepared for consumer groups, is a revision of an earlier film. It briefly sketches the history of the Company and shows in detail the processing of canned meats in our highly-automated plant in the Morgan Park district of Chicago.

Mr. Gibson spoke briefly on the Company's current business. His remarks appear in this report.

The Board of Directors and Officers thank those who came to the meeting or sent in their proxies to be voted. The prompt return of proxies reflect a keen interest in the Company and its progress.

September 27, 1963

PRESIDENT'S REMARKS

Inasmuch as our annual report was issued a little more than a month ago for the fiscal year ended June 29, 1963, I will confine my comments to developments since the report and to our plans for the year ahead.

Sales and earnings for the first two months of the new fiscal year are running ahead of a year ago.

The improvement in earnings is due in part to a better balance in industry supplies of canned fruits and vegetables and the strengthening of prices on a number of high-volume products.

Supplies

The oversupply situation on canned fruits which prevailed throughout the industry last year is easing moderately. Movement at the present time is good and is expected to continue throughout the year.

Canned vegetable carryovers were heavy, but reductions in plantings give indications that total industry supplies may be down slightly from last year.

The year appears to be a promising one for canned juices. Gains in canned juice sales have come about principally as the result of the extreme shortage in frozen citrus. At present almost all canned juices command favorable prices and are showing excellent movement. It will probably take several years for the frozen orange juice industry to recover from the ruinous Florida freeze of mid-December 1962. Meanwhile, other juices have rushed in to fill the void.

Capital Expenditures

Capital expenditures for the year will approximate $11,000,000 as compared with last year's expenditures of $6,400,000.

A substantial portion of our capital investment program is represented by two new production

facilities and the development of newly-acquired grove lands in Florida.

Construction is under way on a new frozen food plant and distribution center in southern Wisconsin, which will be completed in time for our first pack next spring. Vauvert, in southern France, has been selected as the site of our Libaron plant, which will also begin processing operations next year.

The damage to orange and lemon trees in the 1962 freeze was extensive. To restore our production levels on frozen citrus concentrate as rapidly as possible, we have purchased over 1,900 acres of land situated in the southernmost part of the Florida citrus belt. This area is in a weather zone that is less hazardous for citrus crops than are areas farther north. The first commercial crop from plantings which are being made there this year will be harvested in about five years.

Libaron Project

The most outstanding Libby development in recent years is the Libaron Project, the culmination of three years of planning. Our efforts have been directed toward securing a strong production and marketing position in the European Common Market. Libaron is destined to play a leading role in the Company's growth and progress in the international field. The Libaron plant in southern France eventually will be one of the largest fruit and vegetable plants in Europe.

The first phase of operations at Libaron will involve the processing of tomato products, green beans, asparagus and reconstituted juices. The second phase will include the processing of yellow cling peaches, fruit cocktail and pears.

A raw produce procurement system designed to meet the requirements of the region is being developed. Because a high percentage of the raw produce will be grown under contract with French farmers, Libby will have an agricultural staff available to assist these farmers in producing

high quality products for processing and marketing.

A sizeable share of Libaron's output will be exported to Common Market countries and to the United Kingdom, Sweden, Denmark, Norway, Finland, Switzerland and Portugal.

Our Common Market activities will not be confined solely to the Libaron Project. We are now in the process of forming an Italian subsidiary to be known as Libby Italiana, S.p.A., which will serve as an aid in marketing Libby products throughout Italy and assist us in exploring production opportunities in that country.

The Hart Bill

In addition to other problems, the industry now faces the prospect of being straitjacketed with additional and needless regulation if the Hart bill now before Congress is passed. The bill denies the consumer the right of free choice in selecting the weights and sizes of packages she prefers and presumes that an "all-wise" Government should decide what is good for her. Such legislation makes further inroads into the free enterprise system, the cornerstone of our economic well-being. The narrow standardization which the bill would force on manufacturers would require them to spend millions of dollars for new packaging equipment and facilities. Inevitably, these costs would be passed on to the consumer who, in many instances, would be paying much higher prices for the identical products she buys today. The bill entirely ignores the close cooperation of many years' standing between the canning industry and Federal officials in the enforcement of food laws which already offer more than adequate protection to consumers. Proposed legislation such as this should be of concern to stockholders and employes who have a stake in the progress of the Company.

Libby, McNeill & Libby
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Annual Report of

H. J. HEINZ COMPANY

for the year ended May 1, 1963

BOARD OF DIRECTORS

PRINCIPAL CORPORATE OFFICERS

Henry J. Heinz II	*Chairman of the Board*
Frank Armour Jr.	*President*
Frank T. Sherk	*Executive Vice President—United States*
Junius F. Allen	*Executive Vice President—International*
R. Burt Gookin	*Vice President—Finance*
C. Lee Rumberger	*Vice President—Development*
Ralph W. Hunter	*Secretary*

H. J. HEINZ COMPANY • P. O. BOX 57
PITTSBURGH 30 • PENNSYLVANIA

FINANCIAL SUMMARY

	Fiscal Year Ended May 1, 1963 52 Weeks	Fiscal Year Ended May 2, 1962 52 Weeks
Net Sales	$464,215,226	$375,810,168
Net Income for the Year	$ 12,364,429	$ 14,165,806
As a Percentage of Net Sales	2.7%	3.8%
Per Share of Common Stock	$ 2.31	$ 2.65
Dividends Paid on Preferred Stock	$ 237,491	$ 237,747
Dividends Paid on Common Stock	$ 5,255,880	$ 5,209,292
Per Share of Common Stock	$ 1.00	$ 1.00
Net Income Retained in Business	$ 6,871,058	$ 8,718,767
Per Share of Common Stock	$ 1.31	$ 1.66
Total Taxes Charged to Income	$ 18,467,822	$ 22,405,031
Per Share of Common Stock	$ 3.51	$ 4.27

NOTE: Operations of Star-Kist Foods, Inc. are included for 1963, but are not included for 1962. If the second preferred stock issued late in April 1963 in exchange for the capital stock of Star-Kist had been outstanding during the entire year, net income per share would have been $2.12 instead of $2.31, and net income retained in the business per share would have been $1.12 instead of $1.31.

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CHAIRMAN'S REPORT

DURING the fiscal year ended May 1, consolidated sales of H. J. Heinz Company, including the sales of Star-Kist Foods, Inc., a newly acquired Heinz subsidiary, rose to a new high of $464,215,000. This was an increase of 4.8 per cent over the comparable total for the year before of $443,093,000, including the sales of the then independent Star-Kist company.

Consolidated sales set a new high

Consolidated sales computed without including Star-Kist were $382,227,000, the largest in Heinz history. The total for last year was $375,810,000.

. . . also a new high excluding acquisition

We were disappointed with the consolidated net income for the year which, including Star-Kist earnings, was $12,364,000. The comparable total of last year would have been $16,047,000 if the earnings of the Star-Kist company had been included. Excluding the earnings of Star-Kist, net income totaled $10,724,000 this year, as compared with $14,166,000 last year. After allowing for dividends on the 3.65 per cent cumulative preferred stock, the consolidated income this year was equivalent to $2.31 per share of common stock, as against the $2.65 reported last year. If the $3.50 second cumulative preferred issued late in April, 1963 in exchange for the capital stock of Star-Kist had been outstanding during the entire year, net income per share would have been $2.12 instead of $2.31.

. . . but consolidated net income declines

. . . and is equal to $2.31 a share.

For the fifty-second consecutive year, Heinz paid dividends on its common stock, maintaining the annual rate of $1.00 a share that has been in effect since the spring of 1961.

The $1 dividend is maintained.

The lower consolidated earnings resulted chiefly from difficulties we encountered in United States operations. In the late spring of 1962, as we reported a year ago, our main plant at Pittsburgh was closed by a strike. So severe was the eight-week interruption of the Heinz product-flow that now, a year later, we have not fully recovered our previous shelf-space and hence our previous sales level in supermarkets. The strike choked off output of mustard, sauces, beans, spaghetti, meat soups, minute meals, and meat baby foods, and many of these items disappeared from stores throughout the United States. In the last weeks of the strike our distributors were unable to fill store orders for 50 to 60 Heinz items. The resulting out-of-stock situation at the retail level caused us a serious loss in sales and in shelf space.

U. S. earnings are lower

. . . in large part because of the strike

. . . resulting in an out-of-stock situation.

In order to help overcome the effects of the strike, we increased substantially our expenditures for marketing and sales efforts throughout the United States.

Promotional spending is increased.

There were good factors in the American operations. We improved our competitive position in tomato-products, even though there was a general overproduction of tomatoes and tomato paste. Our ketchup situation has never been better, and sales rose 12 per cent over those of the year before.

Ketchup hits a new high.

Production facilities are consolidated.

In line with our program of consolidating production facilities so as to achieve more economic distribution, we discontinued operations at the factory in Medina, New York, the production there being transferred to other factories. The factory buildings are being offered for sale. In the face of the tomato oversupply, we suspended tomato production at Bowling Green and at Chambersburg.

Baby food promoted heavily

. . . and the package is improved.

During the year baby food produced by the new Heinz patented process was heavily promoted. Because of its superiority in nutritional values, flavor and appearance, it should be a source of competitive strength. Additionally we made, on a national basis, a change-over from tall baby-food jars to new and more convenient wide-mouth jars. This change has had a favorable effect on sales.

Hachmeister, Inc., a domestic subsidiary manufacturing wholesale bakery ingredients, continued to register progress.

Foreign affiliates have a good year

Heinz foreign affiliates had another good year: sales increased 7.3 per cent and earnings increased 4.4 per cent.

. . . with England setting a new record

In England sales and profits both rose to all-time highs. Our share of the market in major product lines continued to increase. As the leader in the United Kingdom baby-food market, we have experienced a steady rise in volume, requiring the installation of another high-speed baby-food production line at Kitt Green. New spaghetti production lines have been installed at both the Harlesden and Kitt Green factories. At headquarters in Harlesden, an electronic computer is being installed to help increase management efficiency. Notwithstanding delay caused by the severe winter, construction of the new Research Center and Administration Building at Hayes Park has progressed, and we expect to move into these facilities in the autumn of 1964.

. . . and Canada setting a new record

In Canada, too, sales and profits established new records. Even with the Canadian company's previous large share of the market in ketchup, tomato juice and baby food, each of these categories showed a further sales improvement. The first elements in our long-range construction program are under way. A new cold storage building and a pickle receiving building were completed early this year. In the spring a new agriculture center was opened, providing facilities for our services to growers, and laboratories for soil testing. A three-story production building comprising 225,000 square feet is currently under construction at Leamington.

. . . and Australia setting a new record.

In Australia, sales as well as earnings were the highest in the company's 28-year history. There was a substantial gain in sales of baby food. The Australian company augmented its market share in each of its major product lines. A new main office building was completed at Dandenong, and this year we plan to increase warehousing facilities by 64,000 square feet. The export business of Heinz in Australia grew during the year, especially in baby foods, with deliveries of Heinz products being made to 40 countries overseas.

The Netherlands company made progress. Baby foods led the items showing

gains, which also included soups, sandwich spread and ketchup. Sales to Belgium and Germany improved. In Venezuela, the new organization completed its second year, and is now producing and marketing 70 Heinz products. While we have not yet turned the profit corner in either Holland or Venezuela, we feel that our long-range objectives are attainable.

Holland and Venezuela move forward

Nichiro Heinz Company Ltd., in Japan, is off to a good start with the formation of a management team of Japanese from Nichiro Fisheries Inc., who had studied in Pittsburgh, together with Heinz specialists from the United States, Australia, and Canada. The company began to manufacture ketchup and 14 varieties of baby food. Just before the close of the fiscal year, these products were introduced into the Japanese market.

. . . and Heinz in Japan is off to a good start.

A chief element in Heinz growth since the last annual report has been the acquisition of important food companies at home and abroad. With these acquisitions, total assets have been increased from \$285,091,000 to \$336,282,000 and prospects for increased sales and earnings have been heightened.

Company assets rise with acquisitions

Near the end of the year, Heinz completed the acquisition of Star-Kist Foods Inc., of Terminal Island, California, a leading canner of tuna and other fish products, with facilities in Puerto Rico, American Samoa, Peru, West Africa, and Italy, and with fishing fleets operating around the world. The acquisition gives Heinz an entry into a new sector of the food business.

. . . as Star-Kist becomes a subsidiary.

Just after the close of the fiscal year, Heinz purchased all of the capital stock of Societa del Plasmon S.p.A., of Milano, Italy. The acquisition is part of a previously announced plan for extending the Company's business in Europe. Plasmon is a well known Italian brand name, and Plasmon Baby Food products, which include biscuits, cereals and pastina, as well as strained baby food in jars, are held in high regard by Italian mothers. The market in Italy is expanding steadily, and we believe that the Plasmon acquisition will enable us to participate in the growth.

A new subsidiary is acquired in Italy.

At the annual meeting last September, stockholders elected Mrs. Vira I. Heinz as a new Director. In May the Board elected as a Director Mr. Joseph J. Bogdanovich, president of Star-Kist Foods, Inc.

Changes made in Board of Directors

Mr. Frank T. Sherk, former president of the H. J. Heinz Company of Canada Ltd., and a Director of the parent Company, was elected by the Board as Executive Vice President in charge of United States operations to succeed Mr. B. Dent Graham. Mr. Graham had resigned in October from the Board and from his executive positions because of health. Last September, Mr. Herbert N. Riley and Mr. Frank B. Cliffe, former principal officers of the Company, retired from the Board.

There were other executive changes during the fiscal year.

. . . and also in management.

Mr. Edward V. Anderson, vice president and director of the Canadian company, succeeded Mr. Sherk as president.

Mr. Keith B. Wood, secretary and treasurer, and Mr. Raymond W. Spicer, general manager of marketing, were elected directors of the Australian company.

Mr. Bert A. Harris, a director of the British company for 10 years, retired.

Mr. Claude L. Mitchell, formerly a regional sales manager of the Canadian company, was appointed managing director of the Dutch company.

In the United States, Mr. Louis A. Collier, in charge of marketing, and Mr. Frank M. Brettholle, controller, were elected vice presidents. Mr. Carl A. Brinkman, treasurer, and Mr. Frederick C. Heinz, vice president in charge of industry relations, retired.

Shareholders authorize a new preferred stock.

In the course of acquiring Star-Kist, a new class of Heinz second cumulative preferred stock consisting of 400,000 shares was authorized by shareholders, and 286,281 shares of a first Series, designated as $3.50 second cumulative preferred (convertible before June 1, 1973), were issued and were exchanged for the capital stock of Star-Kist.

The prospects for our business.

In summary, we have had a less than satisfactory year in our American operations, but we are taking vigorous action to bring about the improvement which is needed. We believe that both at home and overseas our greatest opportunities are in expanding the production and sale of the "57 Varieties" from our existing establishments. At the same time, by our investments in Star-Kist in the United States and in Plasmon in Italy, as well as other pending investments, we expect to take advantage of new opportunities in other areas of the processed food industry.

H. J. HEINZ COMPANY

AND CONSOLIDATED SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

	Fiscal year ended May 1, 1963 (52 Weeks)	Fiscal year ended May 2, 1962 (52 Weeks)
NET SALES	$464,215,226	$375,810,168
COST OF SALES	304,645,778	237,558,075
GROSS PROFIT	159,569,448	138,252,093
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (including management profit-sharing plan, $1,679,206 in 1963; $2,393,901 in 1962)	131,197,391	103,177,712
OPERATING PROFIT (after provision for depreciation of $7,924,808 in 1963; $6,573,823 in 1962)	28,372,057	35,074,381
OTHER INCOME, NET	1,018,399	392,480
	29,390,456	35,466,861
OTHER DEDUCTIONS—interest and amortization of debt discount and expense	3,689,742	2,822,941
	25,700,714	32,643,920
PROVISION FOR TAXES ON INCOME (Note 2):		
Federal normal and surtax (after recoverable taxes of $791,228 arising from operating loss carry-back, less prior year's adjustments of $146,789)	481,042	6,464,009
Foreign income taxes	12,069,474	11,181,350
	12,550,516	17,645,359
	13,150,198	14,998,561
DEDUCT Income applicable to minority interests	785,769	832,755
NET INCOME for the year (Note 1)	$ 12,364,429	$ 14,165,806

(See accompanying notes to financial statements)

H. J. HEINZ COMPANY

AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	May 1, 1963	May 2, 1962
CURRENT ASSETS:		
Cash and short-term investments	$ 17,745,333	$ 18,474,940
Marketable securities (quoted market $329,300 in 1963)	500,000	550,000
Accounts receivable:		
Trade, less allowance for doubtful accounts	27,625,643	23,904,916
Sundry	2,026,760	1,059,830
Estimated Federal income taxes of a domestic subsidiary recoverable under carry-back provisions	791,228	—
Inventories—at cost or market, whichever lower:		
Finished goods	103,145,118	76,015,110
Work in process	5,568,808	5,257,315
Ingredient and packaging materials	34,055,434	34,645,191
	142,769,360	115,917,616
Prepaid insurance, supplies, taxes and sundry	4,940,440	4,615,250
Total current assets	196,398,764	164,522,552
INVESTMENTS AND OTHER ASSETS:		
Investments in and advances to unconsolidated subsidiaries and partnerships (at approximate equity)	1,550,880	—
Advances on construction contracts for fishing boats	1,003,023	—
Loans to fishermen, less allowance for losses	884,506	—
Investments in and advances to other companies—at cost	1,617,833	489,610
Deferred expenses	2,069,893	1,109,478
Miscellaneous other assets	1,930,525	844,866
	9,056,660	2,443,954
FIXED ASSETS—AT COST:		
Land	4,440,841	4,398,679
Buildings and leasehold improvements, less accumulated depreciation of $18,872,688 in 1963; $17,389,211 in 1962	62,355,169	56,248,271
Equipment, boats and fixtures, less accumulated depreciation of $52,843,458 in 1963; $44,456,441 in 1962	62,801,506	56,215,522
Lug boxes, baskets and pallets, less amortization	1,228,880	1,261,735
	130,826,396	118,124,207
	$336,281,820	$285,090,713

(See accompanying notes to financial statements)

H. J. HEINZ COMPANY

AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES, CAPITAL STOCK AND SURPLUS

	May 1, 1963	May 2, 1962
CURRENT LIABILITIES:		
Notes payable and loans on open credit (including portion of long-term debt due within one year)	$ 21,222,393	$ 3,744,811
Accounts payable and accrued expenses	33,360,445	27,220,859
Estimated liability for Federal and foreign taxes on income	11,225,589	13,843,633
Total current liabilities	65,808,427	44,809,303
LONG-TERM DEBT AND OTHER LIABILITIES:		
Long-term notes (Note 3)	51,596,714	49,284,710
Liabilities under management profit-sharing plan, less portion payable within one year	11,345,090	11,059,594
Future U. S. and foreign taxes on income	8,812,518	7,474,600
Sundry	342,461	168,749
	72,096,783	67,987,653
RESERVE FOR POSSIBLE FOREIGN EXCHANGE LOSSES	881,967	700,672
MINORITY INTERESTS	12,618,840	12,596,885
CAPITAL STOCK AND SURPLUS:		
Cumulative preferred stock—authorized 165,075 shares—par value $100 per share—issuable in series:		
3.65% series—authorized 65,075 shares—issued and outstanding 65,035 shares in 1963; 65,075 shares in 1962 (Note 4)	6,503,500	6,507,500
Second cumulative preferred stock—authorized 400,000 shares—par value $18.50 per share—issuable in series:		
$3.50 first series—authorized 286,291 shares—issued and outstanding 286,279 shares (Note 4)	5,296,162	—
Common stock—authorized 6,600,000 shares—par value $8.33⅓ per share—issued and outstanding 5,258,130 shares in 1963; 5,251,130 shares in 1962 (Note 4)	43,817,750	43,759,417
Capital surplus	4,125,688	8,108,280
Earned surplus (Note 3)	125,132,703	100,621,003
	184,875,803	158,996,200
	$336,281,820	$285,090,713

(See accompanying notes to financial statements)

H. J. HEINZ COMPANY

AND CONSOLIDATED SUBSIDIARIES

STATEMENTS OF CONSOLIDATED SURPLUS

	Fiscal year ended	
CAPITAL SURPLUS	May 1, 1963	May 2, 1962
AMOUNT AT BEGINNING OF YEAR	$ 8,108,280	$ 7,288,041
EXCESS OF PAR VALUE of second cumulative preferred stock issued over par value of common stock of "pooled" subsidiary received in exchange therefor (Note 1)	(4,240,169)	—
CAPITAL SURPLUS of "pooled" subsidiary	86,856	—
EXCESS OF PAR VALUE of common stock of "pooled" subsidiary over par value of common stock issued therefor in 1962	—	207,500
AMOUNT AT BEGINNING OF YEAR, as adjusted	3,954,967	7,495,541
EXCESS OF PAR VALUE over cost of cumulative preferred stock retired	605	41,333
EXCESS OF OPTION PRICE over par value of 7,000 shares (28,050 shares in 1962) of common stock issued under employees' incentive stock option plan (Note 4)	132,860	532,389
EXCESS OF REDEMPTION VALUE over cost of preference stock retired (British subsidiary)	37,256	39,017
AMOUNT AT END OF YEAR	4,125,688	8,108,280

EARNED SURPLUS		
AMOUNT AT BEGINNING OF YEAR	100,621,003	89,259,571
EARNED SURPLUS of "pooled" subsidiary (Note 1)	17,640,642	2,642,665
AMOUNT AT BEGINNING OF YEAR, as adjusted	118,261,645	91,902,236
ADD NET INCOME FOR THE YEAR	12,364,429	14,165,806
	130,626,074	106,068,042
DEDUCT DIVIDENDS PAID:		
On preferred stock—3.65% series	237,491	237,747
On common stock—$1.00 per share	5,255,880	5,209,292
	5,493,371	5,447,039
AMOUNT AT END OF YEAR	$125,132,703	$100,621,003

(See accompanying notes to financial statements)

H. J. HEINZ COMPANY

AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

(1) *Principles of consolidation:*

The consolidated financial statements include the accounts of the Company and all significant domestic and foreign subsidiaries. Consolidated net assets were in companies located as follows:

	May 1, 1963	May 2, 1962
Western Hemisphere:		
United States and its Possessions	$ 98,416,218	$ 83,969,862
Other	26,197,240	19,151,376
	124,613,458	103,121,238
Eastern Hemisphere:		
British Commonwealth	58,635,925	53,900,722
Other	1,626,420	1,974,240
	60,262,345	55,874,962
	$184,875,803	$158,996,200

Except for property, plant, equipment and most long-term debt, assets and liabilities of the foreign subsidiaries have been converted at appropriate exchange rates prevailing at the end of the fiscal year. Foreign property, plant, equipment and long-term debt have been converted on the basis of exchange rates prevailing at the time of acquisition. The realization in U. S. dollars of assets located outside the United States is limited in certain instances by currency and other restrictions. No provision has been made for U.S. income taxes which may become payable when earnings of foreign subsidiaries are remitted as dividends since, in the case of those subsidiaries where it is contemplated that earnings will be remitted, the credit for foreign taxes on income already paid generally offsets applicable U. S. income taxes. Operating accounts (other than depreciation which was based upon the approximate equivalent dollar cost of fixed assets) were converted at average rates of exchange prevailing during the fiscal year. The net unrealized gain on foreign exchange has been credited to the reserve for possible foreign exchange losses. Of the consolidated net income for the year, $10,543,230 originated from subsidiaries located outside the United States and its possessions, and the income of the Company from dividends from such subsidiaries during the year amounted to $4,592,302.

During April, 1963, the Company exchanged 286,279 shares of its $3.50 second cumulative preferred stock for all the outstanding stock of Star-Kist Foods, Inc. in a transaction recorded as a pooling of interests. This stock was issued at the end of April; the financial statements for the year ended May 1, 1963, do not reflect any charge for dividend requirements. The consolidated balance sheet at May 1, 1963 includes the accounts of Star-Kist Foods, Inc. and its consolidated subsidiaries but the statements of consolidated income and surplus for the fiscal year then ended include the accounts of Star-Kist Foods, Inc. and its consolidated subsidiaries only from June 1, 1962, the beginning of its fiscal year. The consolidated financial statements for the fiscal year ended May 2, 1962 have not been restated to include the accounts of Star-Kist Foods, Inc. and its consolidated subsidiaries. Consolidated net sales and net income thereby excluded from the statement of consolidated income for the fiscal year ended May 2, 1962 amounted to $67,283,175 and $1,880,994, respectively.

(2) *Investment credit:*

An investment credit of $162,187 against the Federal income tax liability for 1963 was obtained pursuant to the Revenue Act of 1962. Of such amount, 52%, less current amortization ($81,907) has been deferred to offset future income taxes resulting from reduced depreciation allowances for tax purposes and the balance ($80,280) has been included in 1963 income as a reduction of the tax expense.

(3) *Long-term notes:*

Details of long-term notes at May 1, 1963 are as follows:

	Interest per cent	Maturity (fiscal year)	Portion due Non-current	Portion due Current
Company:				
Promissory notes	2.90	1964-69	$ 6,780,000	$ 1,020,000
Promissory notes	4⅞	1965-84	20,000,000	—
Subsidiaries:				
Promissory notes (Australia)	4¾	1964-76	7,639,649	195,529
Promissory notes (Venezuela)	9	1967-72	1,822,805	—
Debentures (England)	6	1965-84	5,640,000	—
Debentures (England)	5½	1966-85	5,610,000	—
Installment note (domestic)	4 to 5	1964-69	3,093,750	687,500
Sundry obligations (domestic and foreign)	2 to 8	1964-68	1,010,510	1,351,639
			$ 51,596,714	$ 3,254,668

Under note agreements, dated April 1, 1959, providing for the issue of $20,000,000 of 4⅞% 25-year notes due April 1, 1984, fixed annual prepayments of principal of $1,000,000 are required to be made commencing April 1, 1965. Additional prepayments may be made at the option of the Company at specified premium rates or, under specified conditions, at no premium. In addition to restrictions relating to additional indebtedness, mortgages and liens, purchase and redemption of capital stock and other restrictions, the note agreements contain provisions against the payment of dividends by the Company upon its common stock (otherwise than in its own capital stock) if such dividends, together with purchases, payments to the sinking fund and dividends in respect of presently authorized cumulative preferred stock and amounts expended by the Company or any subsidiary for purchase or other acquisitions of any class of the Company's stock, since October 29, 1958 would exceed consolidated net income after October 29, 1958 plus the sum of $7,500,000 and, further, if the sum of consolidated funded debt and consolidated discounted lease rentals would exceed fifty per cent of consolidated capital and surplus after giving effect to such dividend payments. The portion of consolidated earned surplus as of May 1, 1963 which was not thereby restricted was $41,117,889.

The 2.90% notes, dated February 24, 1949, also contain various conditions which are less restrictive than those pertaining to the 4⅞% 25-year notes.

The 6% debentures, issued by the subsidiary located in England contain provisions requiring annual sinking fund payments, commencing January 31, 1965, approximating $76,700 plus interest for one year. Prepayments of the entire indebtedness, or a portion thereof, may be made on January 31, 1975 with a 3½% premium and at decreasing premium rates thereafter.

The 5½% debentures, issued by the subsidiary located in England, contain provisions requiring annual sinking fund payments, commencing January 31, 1966, approximating $80,600 plus interest for one year. Prepayment of the entire indebtedness, or a portion thereof, may be made on January 31, 1976 with a 3½% premium and at decreasing premium rates thereafter.

(4) *Capital stock:*

The 3.65% series cumulative preferred stock is, until October 1, 1963, callable at $103.75 per share or redeemable through the sinking fund at a maximum of $103.25 per share, and in each case at $102.75 per share thereafter. A payment, not exceeding $200,000, is required to be made to the sinking fund on or before October 1 of each year.

On April 17, 1963, the Restated Articles of Incorporation were amended to authorize a new class of 400,000 shares of Second Cumulative Preferred Stock, $18.50 Par Value, issuable in one or more series. On the same date, the Board of Directors established the first series, fixed the number of shares thereof as 286,291 and designated it "$3.50 Second Cumulative Preferred Stock (Convertible Prior to June 1, 1973)". Each share of this series is convertible into common stock at any time prior to June 1, 1973 at an initial conversion rate of 100/45 shares of common stock and may be redeemed by the Company from June 1, 1968 to and including May 31, 1969 at $102.50 per share and at decreasing prices thereafter. On or before August 1, 1973, and on or before each August 1 thereafter, so long as any shares of this series are outstanding, the Company (as and for an annual sinking fund) shall retire through redemption, purchase or otherwise, shares of this series equal to 2% of the total number of shares outstanding at the close of business on June 1, 1973. Cumulative arrearages as to such retirements are permissible in the event that consolidated net income, less certain deductions, is less than the amount necessary to pay in full all requirements to retire shares of all series of the second preferred stock.

At May 1, 1963, 147,200 shares of common stock were subject to outstanding options under the employees' incentive stock option plan and 65,000 additional shares were reserved for purposes of the plan and not subject to options. Options are granted at not less than 95% of fair market value at date of grant and, with certain exceptions, may be exercised to the extent of 25% thereof at the time of grant and 25% annually thereafter. During the fiscal year, options were exercised for 7,000 shares at $27.31⅓ per share. Shares subject to option at May 1, 1963 ranged in price from $26.60 to $62.50 per share.

(5) *Retirement systems:*

The amount charged to income by the Company and its consolidated subsidiaries for the year aggregated $2,131,155 with respect to past service and current service costs. Unfunded past service costs at May 1, 1963 amounted to approximately $2,505,000 and such costs are currently being funded over a twenty-year period.

(6) *Other matters:*

In May, 1963, the Company purchased all the outstand-

ing capital stock and debentures of a European food products company. Currently, negotiations are being conducted for the purchase of several foreign and domestic food product companies. The estimated purchase price of these acquisitions will approximate $20,000,000.

In connection with the acquisition of Star-Kist Foods, Inc., a claim has been filed against the Company and its "pooled" subsidiary for a finder's fee in the amount of approximately 5% of the total value of second cumulative preferred stock. In the opinion of the management, there is no basis for such claim.

The Anti-Trust Division of the Department of Justice has instituted a grand jury investigation to determine whether Star-Kist Foods, Inc., and certain other tuna canning companies have engaged in violations of anti-trust laws. In the opinion of management, no such violations have occurred.

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

HENRY W. OLIVER BUILDING

PITTSBURGH 22, PA.

ACCOUNTANTS' REPORT

To the Stockholders
H. J. Heinz Company:

We have examined the consolidated balance sheet of H. J. Heinz Company and consolidated subsidiaries as of May 1, 1963 and the related statements of income and surplus for the fiscal year then ended. Our examination, which included the Company and its subsidiaries located in the Western Hemisphere, was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As regards the principal subsidiaries located in the Eastern Hemisphere, which are of major importance and which we did not examine, we have been furnished with reports of other independent accountants and such accounts are incorporated in the accompanying consolidated financial statements, as indicated in Note 1.

In our opinion, based on our examination and on the reports of other independent accountants, the accompanying consolidated balance sheet and statements of consolidated income and surplus present fairly the financial position of H. J. Heinz Company and consolidated subsidiaries at May 1, 1963 and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles. Such principles have been applied on a basis consistent with that of the preceding year, except that the figures for the prior fiscal year have not been restated to include the operating results of the acquired company and its consolidated subsidiaries as explained in Note 1 to the financial statements.

Peat, Marwick, Mitchell + Co.

Pittsburgh, Pa.
June 21, 1963

H. J. HEINZ COMPANY

AND CONSOLIDATED SUBSIDIARIES

SUMMARY OF INCOME STATEMENTS

	FISCAL YEARS ENDED		
	May 1, 1963 52 Weeks	May 2, 1962 52 Weeks	May 3, 1961 53 Weeks
Net sales	$464,215,226	$375,810,168	$365,989,576
Cost of sales	304,645,778	237,558,075	233,924,601
Gross profit	159,569,448	138,252,093	132,064,975
Selling, general and administrative expenses (including management profit-sharing plan)	131,197,391	103,177,712	101,136,825
	28,372,057	35,074,381	30,928,150
Other income	1,018,399	392,480	1,346,374
	29,390,456	35,466,861	32,274,524
Other deductions—including interest expense	3,689,742	2,822,941	3,182,353
	25,700,714	32,643,920	29,092,171
Provision for taxes on income	12,550,516	17,645,359	14,683,525
	13,150,198	14,998,561	14,408,646
Deduct Income applicable to minority interests	785,769	832,755	793,965
Net income for the year	$ 12,364,429	$ 14,165,806	$ 13,614,681
Balance of net income per share of common stock—after preferred dividends (a)	$2.31 (b)	$2.65	$2.62
Cash dividends per share of common stock (a)	1.00	1.00	.86⅔
Shares of Common Stock outstanding at end of year (a)	5,258,130	5,251,130	5,098,580

(a) Adjustments have been made for 1960 and prior years to give effect to the 3 for 1 stock split of February, 1961.

(b) Operations of Star-Kist Foods, Inc. are included for 1963, but are not included for prior years. If the second preferred stock issued late in April 1963 in exchange for the capital stock of Star-Kist had been outstanding during the entire year, net income per share would have been $2.12 instead of $2.31.

H. J. HEINZ COMPANY

AND CONSOLIDATED SUBSIDIARIES

SUMMARY OF INCOME STATEMENTS

FISCAL YEARS ENDED

April 27, 1960 52 Weeks	April 29, 1959 52 Weeks	April 30, 1958 52 Weeks	May 1, 1957 52 Weeks	May 2, 1956 53 Weeks	April 27, 1955 52 Weeks	April 28, 1954 52 Weeks
$340,223,700	$316,856,669	$293,811,817	$278,852,384	$262,425,046	$234,179,207	$220,632,934
223,071,491	209,296,050	197,989,165	181,927,571	170,487,408	151,890,465	149,499,095
117,152,209	107,560,619	95,822,652	96,924,813	91,937,638	82,288,742	71,133,839
89,159,165	83,632,375	75,757,981	74,793,849	70,121,011	62,740,130	57,374,877
27,993,044	23,928,244	20,064,671	22,130,964	21,816,627	19,548,612	13,758,962
951,597	337,645	394,633	564,637	1,258,723	639,026	80,112
28,944,641	24,265,889	20,459,304	22,695,601	23,075,350	20,187,638	13,839,074
2,683,362	2,298,443	2,113,533	1,256,512	916,607	1,490,028	1,328,699
26,261,279	21,967,446	18,345,771	21,439,089	22,158,743	18,697,610	12,510,375
13,209,540	10,139,971	8,345,756	10,356,591	10,907,900	9,147,265	6,657,155
13,051,739	11,827,475	10,000,015	11,082,498	11,250,843	9,550,345	5,853,220
763,924	816,694	778,748	720,680	675,035	604,447	311,884
$ 12,287,815	$ 11,010,781	$ 9,221,267	$ 10,361,818	$ 10,575,808	$ 8,945,898	$ 5,541,336
$2.37	$2.12	$1.76	$1.99	$2.03	$1.70	$1.03
.73⅓	.73⅓	.73⅓	.66⅔	.60	.60	.60
5,066,691	5,066,691	5,066,691	5,066,691	5,066,691	5,066,691	5,066,691

HEINZ INTERNATIONAL OPERATIONS

MANAGEMENT BOARDS

UNITED STATES

Pittsburgh, Pennsylvania

Frank T. Sherk. . . . . *Executive Vice President*

Norman E. Daniels, *Senior Vice President—Administration*

P. Kenneth Shoemaker, *Senior Vice President—Operations*

Frank M. Bretthole. . . . . . . *Vice President and Controller*

Louis A. Collier. . . . . *Vice President—Marketing*

John D. Scott. *Vice President—Sales*

Charles Heinz. . . . . *Vice President—Personnel*

STAR-KIST FOODS, INC.

Terminal Island, California

Joseph J. Bogdanovich. . . . . *President*

William D. Mewhort. . . . . *Vice President—Finance*

Robert K. Pedersen. . . . . *Vice President—Operations*

John J. Real. . . . . *Vice President—Administration*

Jerry G. Scharer. . . . . *Vice President—Marketing*

HACHMEISTER, INC.

McKees Rocks, Pennsylvania

Albert W. Remensnyder. . . . . *President*

Harvey L. Dunker. . . . . *Executive Vice President*

GREAT BRITAIN

H. J. HEINZ COMPANY, LTD.

London, England

Frederick G. Crabb. . . . . *Managing Director*

Joseph E. Hutchinson. . . . . *Deputy Managing Director*

Anthony Beresford. . . . . *Sales and Marketing*

John Eccles. . . . . *Purchasing*

A. Gordon Esslemont. . . . . *Secretary*

Laurence E. Sullivan. *Manufacturing*

James A. Wilen. . . . . *Research and Quality Control*

CANADA

H. J. HEINZ COMPANY OF CANADA, LTD.

Leamington, Ontario, Canada

Edward V. Anderson. . . . . *President*

J. Ross Crerar. . . . . *Vice President—Manufacturing*

Leonard D. Crimp. . . . . *Vice President—Sales*

Paul E. Gervais. . . . . *Vice President—Marketing*

John M. Page. . . . . *Vice President—Finance and Secretary*

AUSTRALIA

H. J. HEINZ COMPANY, PTY. LTD.

Dandenong, Victoria, Australia

John A. W. Ross. . . . . *Managing Director*

Leonard S. Crowe. . . . . *Manufacturing*
Henry G. Dennett. . . . . *Finance*
Fred V. Kellow. . . . . *Marketing and Sales*
Raymond W. Spicer. . . . . *Marketing*
W. Wentworth Watt. . . . . *Comptroller*
Keith B. Wood. . . . . *Secretary and Treasurer*

THE NETHERLANDS

H. J. HEINZ N.V.

Elst, Gelderland, Holland

Claude L. Mitchell. . . . . *Director*
Jan J. M. Taminiau. . . . . *Director*

SUBSIDIARY OF H. J. HEINZ N.V.

H. J. HEINZ COMPANY (BELGIUM) S.A./N.V.

Brussels, Belgium

VENEZUELA

ALIMENTOS HEINZ C.A.

Valencia, Carabobo, Venezuela

Gerald K. Warner. . . . . *President*

Ernesto Blohm. . . . . *Director*
Lewis V. Leggate. . . . . *Secretary-Treasurer*
Leslie C. Marshall. . . . . *Manufacturing*
Anthony Rojas. . . . . *Sales*

JAPAN

NICHIRO HEINZ COMPANY, LTD.

Tokyo, Japan

Eizo Amemiya. . . . . *President*
Gilbert H. Morris. . . . . *Director*

ITALY

SOCIETA DEL PLASMON S.p.A.

Milan, Italy

Oscar A. Pio. . . . . *Managing Director*

HEINZ PRODUCTS—MARKETED IN THE UNITED STATES

Baby Foods	Instant Cereal (5 varieties); Baby Fruit Juices (13 varieties); Strained Baby Foods (44 varieties); Strained Meats (8 varieties); Strained High Meat Dinners (6 varieties); Junior Foods (36 varieties); Junior Meats (5 varieties); Junior High Meat Dinners (5 varieties); Junior Meat Sticks
Beans	Pork and Beans in Tomato Sauce; Boston Style Beans with Pork and Molasses Sauce; Vegetarian Beans in Tomato Sauce; Beans in Molasses Sauce; Campside Beans
Blennd	Orange-Lemon Fruit Drink Concentrate
Minute Meals	Chicken Noodle Dinner; Macaroni Creole; Spanish Rice; Beef Stew; Chicken Stew with Dumplings; Beans and Franks; Spaghetti with Meat Sauce; Noodles with Beef
Mustard	Brown Mustard; Yellow Mustard
Onions	Sweet Onions; Spiced Onions; Cocktail Onions
Pickles	Genuine Dill Pickles; Processed Dill Pickles; Kosher Dill Pickles; Fresh Cucumber Pickles; Hamburger Slices; Piccalilli; Sweet Pickles; Sweet Gherkins
Relishes	India Relish; Sweet Relish; Hot Dog Relish; Hamburger Relish; Barbecue Relish
Sauces	Savory Sauce; Barbecue Sauce; Worcestershire Sauce; "57 Sauce
Soups	Split Pea Soup; Cream of Pea Soup; Cream of Mushroom Soup; Tomato Soup; Cream of Celery Soup; Beef Noodle Soup; Alphabet Soup; Bean Soup; Consomme; Chicken Gumbo Soup; Chicken Soup with Rice; Chicken Noodle Soup; Chicken Vegetable Soup; Cream of Chicken Soup; Cheese Soup; Chili with Beef Soup; Clam Chowder Soup; Minestrone Soup; Beef, Vegetable and Barley Soup; Tomato Rice Soup; Vegetable Beef Soup; Vegetable Soup; Vegetarian Vegetable Soup; Turkey Noodle Soup
Spaghetti Products	Spaghetti, Tomato Sauce and Cheese; Macaroni with Cheese Sauce
Tomato Products	Tomato Ketchup; Hot Ketchup; Chili Sauce Tomato Juice; Concentrated Tomato Juice
Vinegars	Cider Vinegar; White Vinegar; Malt Vinegar; Tarragon Vinegar; Salad Vinegar; Wine Vinegar
Others	Chili Con Carne with Beans; Apple Sauce; Horse Radish; Salad Dressing

Similar as well as entirely different varieties are manufactured and marketed by Heinz in other countries

STAR-KIST PRODUCTS MARKETED IN THE UNITED STATES AND OVERSEAS

Tuna	Chunk, solid and grated styles of white and light tuna in oil or water
Bonita	Chunk, solid and flakes styles of bonita in oil
Mackerel	California mackerel in water; Jack mackerel in water or tomato sauce
Sardines	California sardines in tomato sauce, in mustard sauce, or in water
Clams	Minced clams in own juice
Squid	Squid in water
Specialty Foods	Egg Noodles and Tuna Dinner
Frozen Foods	Tuna Pie; Tuna Casserole; Rock Lobster Newburg; South African Lobster Tails; Chilean Langostinos; Bulk Chilean Langostinos; Bulk Chilean Shrimp; Bulk Squid
Cat Foods	Tuna; Kidney in Cream Gravy; Liver in Cream Gravy
By-Products	Fish Meal; Fish Solubles; Fish Oils

HACHMEISTER PRODUCTS

Manufactured for the baking industry in the United States and export markets

Bread Emulsifier
Cake Emulsifier
Monoglycerides

Cake Icings
Boiled Icings and Glazes for Sweet Rolls
Mixes for Sweet Rolls and Coffee Cakes
Hako Tem, patented food emulsifier

Doughnut Mixes
Yeast Food
Bread Pan Oils

TRANSFER AGENTS

The First National City Bank of New York, New York

Mellon National Bank and Trust Company, Pittsburgh, Pennsylvania

REGISTRARS

Morgan Guaranty Trust Company of New York, New York

Pittsburgh National Bank, Pittsburgh, Pennsylvania

DIVIDEND DISBURSING AGENT

Mellon National Bank and Trust Company, Pittsburgh, Pennsylvania

ANNUAL MEETING

The annual meeting of the shareholders of the Company will be held at 2 p.m. on Friday, September 13, 1963, at the Executive Offices of the Company, at Heinz and Progress Streets, in Pittsburgh. A formal notice of the meeting, together with a proxy statement and form of proxy, will be sent to each shareholder about August 9.

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